

CHANGE REQUEST COVER SHEET

Change Request Number: 11-53A

Date Received: 7/20/2011

Title: Cost Accounting Standards (CAS) Threshold Increase

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Policy OR Guidance: Guidance

Section/Text Location Affected: T3.2.3A.3 plus clause revisions

Summary of Change: Increase in threshold for procurements subject to Cost Accounting Standards (CAS) from \$650,000 to \$700,000

Reason for Change: Consistency with interim rule in Federal register raising threshold

Development, Review, and/or Concurrence: Acquisition Policy Division

Target Audience: Contracting Workforce and Program Offices

Potential Links within FAST for the Change: None

Briefing Planned: No

ASAG Responsibilities: None

Potential Links within FAST for the Change: None

Links for New/Modified Forms (or) Documents (LINK

1) <https://conwrite.faa.gov/CWClauseList.cfm?Show=Num,Title,Text,Pers&CatNum=3.2.3>

Links for New/Modified Forms (or) Documents (LINK 2)

Links for New/Modified Forms (or) Documents (LINK 3)

SECTIONS EDITED:

Procurement Guidance:

T3.2.3 - Cost and Price Methodology

Cost and Price Methodology

Section 3 : Cost Accounting Standards [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

SECTIONS EDITED:

Section 3 : Cost Accounting Standards

Old Content: Procurement Guidance:

T3.2.3 - Cost and Price Methodology

Cost and Price Methodology

Section 3 : Cost Accounting Standards

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

(1) Negotiated contracts and subcontracts not in excess of \$650,000. For purposes of this arrangement, and order issued by one segment to another must be treated as a subcontract.

(2) Contracts and subcontracts with small businesses.

(3) Contracts and subcontracts with foreign governments or their agents or instrumentalities or (insofar as the requirements of CAS other than 9904.401 and 99.402 are concerned) any contract or subcontract awarded to a foreign concern.

(4) Contracts and subcontracts in which the price is set by law or regulation;

(5) Firm fixed price and fixed-price with economic price adjustment (provided that the price adjustment is not based on actual costs incurred), time-and-materials, and labor-hour contracts and subcontracts for acquisition of commercial items.

(6) Contracts or subcontracts of less the \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or greater.

(7) Contracts and subcontracts to be executed and performed outside the United States, its territories, and possessions; and

(8) Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

d. *Responsibilities.*

(1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO must then ensure that the offeror has made the required certifications and that required Disclosure Statements are submitted.

(2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

(4) The cognizant CO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

e. *Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the

CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

f. *Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are material or immaterial, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government

and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

- (a) Tend to offset one another; or
- (b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

- (1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and
- (2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

(a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.

(b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.

(c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard

as soon as practical after the new or modified Standard has been promulgated by the CASB.

(2) *Accounting Changes.*

(a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards. requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.

(b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

(i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and

manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

j. Noncompliance with CAS Requirements.

(1) Determination of Noncompliance.

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the CO determines that the contractor's practices are in noncompliance, a written explanation must be provided as to why the CO disagrees with the contractor's rationale. The CO must notify the contractor and the auditor in writing of the determination. If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

(2) Accounting Changes.

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable interest. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the

contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. *Voluntary Changes.*

(1) *General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and

subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that, in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

New Content: Procurement Guidance:

T3.2.3 - Cost and Price Methodology

Cost and Price Methodology

Section 3 : Cost Accounting Standards

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

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b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

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(2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

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e. *Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should

notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

f. *Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

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(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

(1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and

(2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

(a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.

(b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.

(c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the CASB.

(2) Accounting Changes.

(a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.

(b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

(i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will

serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

j. Noncompliance with CAS Requirements.

(1) Determination of Noncompliance.

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the CO determines that the contractor's practices are in noncompliance, a written

explanation must be provided as to why the CO disagrees with the contractor's rationale. The CO must notify the contractor and the auditor in writing of the determination. If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

(2) Accounting Changes.

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

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(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable interest. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. *Voluntary Changes.*

(1) *General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that, in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

Red Line Content: Procurement Guidance:

T3.2.3 - Cost and Price Methodology

Cost and Price Methodology

Section 3 : Cost Accounting Standards

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

(1) Negotiated contracts and subcontracts not in excess of \$~~650~~**700**,000. For purposes of this arrangement, and order issued by one segment to another must be treated as a subcontract-;

(2) Contracts and subcontracts with small businesses-;

(3) Contracts and subcontracts with foreign governments or their agents or instrumentalities or (insofar as the requirements of CAS other than 9904.401 and 99.402 are concerned) any contract or subcontract awarded to a foreign concern-;

- (4) Contracts and subcontracts in which the price is set by law or regulation;
- (5) Firm fixed price and fixed-price with economic price adjustment (provided that the price adjustment is not based on actual costs incurred), time-and-materials, and labor-hour contracts and subcontracts for acquisition of commercial items;
- (6) Contracts or subcontracts of less the \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or greater;
- (7) Contracts and subcontracts to be executed and performed outside the United States, its territories, and possessions; and
- (8) Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

d. *Responsibilities.*

- (1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO must then ensure that the offeror has made the required certifications and that required Disclosure Statements are submitted.
- (2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.
- (3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.
- (4) The cognizant CO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

e. *Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

f. *Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are

material or immaterial, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* -- The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* -- The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* -- Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* -- It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. -- If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

(1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and

(2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

(a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.

(b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.

(c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the CASB.

(2) Accounting Changes.

(a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.

(b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

(i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the

negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. - - This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. - - The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to agree to the cost or price adjustment. - - The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

j. Noncompliance with CAS Requirements.

(1) Determination of Noncompliance.

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance.-- If the CO determines that the contractor's practices are in noncompliance, a written explanation must be provided as to why the CO disagrees with the contractor's rationale.-- The CO must notify the contractor and the auditor in writing of the determination.-- If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

(2) Accounting Changes.

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance.-- If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards".-- In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance.-- Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest.-- An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred.-- Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. -- The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable interest. -- The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. *Voluntary Changes.*

(1) *General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. -- However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. -- If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. - - The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. - - The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. - - The contractor must also be advised that, in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

I. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. - - COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.
